

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF SOUTH 641 WATER DISTRICT,)
A WATER DISTRICT ORGANIZED PURSUANT TO CHAP-)
TER 74 OF THE KENTUCKY REVISED STATUTES, OF)
CALLOWAY COUNTY, KENTUCKY, FOR (1) A CERTI-)
FICATE OF PUBLIC CONVENIENCE AND NECESSITY,)
AUTHORIZING AND PERMITTING SAID WATER DIS-)
TRICT TO ACQUIRE THE EXISTING WATER AND)
SEWER SYSTEM OF THE CITY OF HAZEL, KENTUCKY)
AND TO CONSTRUCT REPLACEMENTS, EXTENSIONS,)
ADDITIONS, AND IMPROVEMENTS TO SAID SYSTEM;)
(2) APPROVAL OF THE PROPOSED PLAN OF FINAN-)
CING OF SAID PROJECT; AND (3) APPROVAL OF)
THE WATER AND SEWER RATES PROPOSED TO BE)
CHARGED BY THE DISTRICT TO CUSTOMERS OF THE)
DISTRICT.)

CASE NO. 7940

O R D E R

On August 19, 1980, the South 641 Water District, hereinafter referred to as the "Applicant", filed with this Commission its application seeking: (1) A certificate of Public Convenience and Necessity authorizing the construction of a proposed water distribution system (a) approval of the purchase of the existing water and sewage system of the city of Hazel, Kentucky, (hereinafter sometimes referred to as the Hazel systems), (b) the construction of replacements, extensions, additions, and other improvements to the Hazel systems. (2) Approval of the proposed plan of financing and (3) Approval of proposed rates for providing water and sewage services.

The case was scheduled for hearing at the Commission's offices in Frankfort, Kentucky, September 19, 1980. All parties of interest were notified, and the Division of Consumer Intervention of

the Attorney's General Office was the only party intervening in the matter.

On October 24, 1980, the Commission entered an Interim Order wherein Applicant was granted a Certificate of Convenience and Necessity authorizing the Applicant to acquire the existing water and sewer system of the City of Hazel, Kentucky, and to construct replacements, extensions, additions, and improvements to said systems. The Commission also authorized financing of the construction project. The approved financing consisted of a FmHA loan of \$472,000 at an interest rate not to exceed 5%. The remaining construction is to be funded by a FmHA grant of \$660,000 and contributions from consumers of \$8,000.

The purpose of this Order is to address the request of Applicant for approval of water and sewage rates.

REVENUES AND EXPENSES

The Applicant filed a schedule of projected income and expenses for the establishment of initial rates for water and sewage services for its 272 water customers and 216 sewage customers. The Commission, however, has made adjustments to the income and expenses.

The Commission has adjusted operating revenues by \$2,800 to exclude income from connection fees which was incorrectly recorded as revenues. The Commission is of the opinion that connection fees or tap-on fees should be recorded in Account 271, Contributions in Aid of Construction, which is not an operating revenue account.

The Commission has also made an adjustment to the operating

expenses to exclude the cost of capital items of \$2,800 which were erroneously included in operating expenses. The Commission has reduced the proposed depreciation expense by \$3,787 to exclude depreciation on contributed property for rate making purposes. The record herein reflects that contributions in aid of construction from customers and a federal grant amounted to \$668,000 or approximately 58.6% of the total cost of water and sewer plant. It is the policy of the Commission that Applicant, through its water and sewage rates, will generate revenues sufficient to recover all costs in providing service to its customers. However, it is not the Commission's policy that Applicant charge its customers for costs it has not incurred, as would be the case if Applicant were allowed to charge its customers for depreciation on contributed property. The Applicant had not included in the depreciation expense any provision for depreciation on the water and sewer plant which was purchased from the City of Hazel. Since the Commission had no basis for determining depreciation, no adjustment for depreciation on the water and sewer plant of the City of Hazel was considered in the expenses of the Applicant.

Interest expense has been allocated to water operation and sewage operation based on the estimated cost of plant.

Based on the approved level of operating expenses, Applicant would need rates sufficient to provide operating revenues of \$40,461 from the water customers and \$22,162 from its sewer customers.

Based on the aforesaid level of revenue and the allowed operating expenses, Applicant's operating statement would appear as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues	\$40,461	\$22,162	\$62,623
Operating Expenses	19,793	13,529	33,322
Operating Income	\$20,668	\$ 8,633	\$29,301
Interest Expense	20,296	3,304	23,600
Net Income	<u>\$ 372</u>	<u>\$ 5,329</u>	<u>\$ 5,701</u>

The Commission is of the opinion that this level of net income will be sufficient to pay operating expenses, meet debt service requirements, and maintain adequate fund balances as required by Applicant's bond ordinances.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates proposed by Applicant and set forth in Appendix "A" for water service and Appendix "B" for sewage service, attached hereto and made a part hereof, are the fair, just, and reasonable rates to be charged by the Applicant. Further, that these water and sewage rates should produce annual water revenues of approximately \$40,461 and annual sewage revenues of approximately \$22,162.

IT IS THEREFORE ORDERED that the rates as prescribed and set forth in Appendix "A" and Appendix "B", each attached hereto and made a part hereof are fixed and prescribed as the rates for water service and sewage service, respectively, rendered by South 641 Water District on and after the date of this Order.

IT IS FURTHER ORDERED that South 641 Water District shall file with this Commission within twenty (20) days from the date of this Order, its tariff sheets setting forth the water and sewage rates approved herein. Further, that a copy of Applicant's Rules

and Regulations for providing services shall be filed with the said tariff sheets.

IT IS FURTHER ORDERED that South 641 Water District shall file with this Commission within sixty (60) days of the date of this Order the appropriate journal entries recording the acquisition of the water and sewer system of the City of Hazel; said entries should be made in accordance with the uniform system of accounts for water and sewer utilities prescribed by this Commission.

Done at Frankfort, Kentucky, this 14th day of April, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Did not participate.
Vice Chairman

Don Hargan
Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 7940 DATED APRIL 14, 1981.

The following water service rates are prescribed for the customers in the area served by South 641 Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Residential and Commercial Service

First	2,000 Gallons	\$ 8.25 (Minimum Bill)
Next	3,000 Gallons	3.50 per 1,000 Gallons
Next	5,000 Gallons	3.00 per 1,000 Gallons
Over	10,000 Gallons	2.50 per 1,000 Gallons

Meter Connection Charges

<u>Meter Size*</u>	<u>Fee Prior to Commencement of Construction</u>	<u>Fee After Commencement of Construction</u>
5/8" x 3/4"	\$ 200.00	\$ 350.00
1"	350.00	500.00

*Meters larger than 1" charged at the actual cost of construction.

APPENDIX "B"

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 7940 DATED APRIL 14, 1981.

The following sewer service rates are prescribed for the customers in the area served by South 641 Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Residential and Commercial Service

The monthly sewer service rate shall be seventy percent (70%) of the monthly water service bill.

The minimum monthly sewer service bill shall be \$5.78.